

**FINANCIAL AUDITS OF THE
STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
FOR THE YEARS ENDED JUNE 30, 2003 and 2002**

January 23, 2004

Comptroller
State of Hawaii
Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawaii 96813

Gentlemen:

Herein we submit our report on the financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund, as of and for the years ended June 30, 2003 and 2002. Our audits were performed in accordance with the terms of our contract with the State of Hawaii.

We would like to express our appreciation to the personnel of the State Motor Pool Revolving Fund, and in particular to Mr. Brian Saito, Mr. George Okano and Mr. Hugh Sonoda, for the assistance and cooperation we received during the course of our audits.

Sincerely yours,

ENDO & COMPANY

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

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**MANAGEMENT=S DISCUSSION
AND ANALYSIS**

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

This section of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund's (the "Fund") annual financial report presents management's discussion and analysis of the Fund's financial performance during the year ended June 30, 2003. Please read it in conjunction with the Fund's financial statements which follows this section.

Financial Highlights

The Fund's total net assets decreased by 1.3% or \$68,649 in 2003 over 2002.

- < The Fund's operating revenues increased 5.6% or \$106,751 in 2003 over 2002. The increase is partially due to the Fund maximizing the rental of its vehicles.
- < Lower investment yields and reduction in cash available to invest due to the transfer to the State's General Fund resulted in a decrease in investment income of \$20,074, or 18.4% decrease over 2002.

Overview of the Financial Statements

The financial statements consist of three (3) parts: management's discussion and analysis, the financial statements and notes to financial statements, and other report. These components are described below:

Financial Statements

The financial statements report information about the Fund using accounting methods similar to those used by private sector companies. The *Statement of Net Assets* provide both short-term and long-term information about the Fund's financial position, which reflects the Fund's economic condition at the end of the year. All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Net Assets* on an accrual basis, i.e., regardless of when cash is received or paid.

**STATE OF HAWAII
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Overview of the Financial Statements (continued)

The *Statements of Net Assets* presents all of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in the Fund's assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* presents information reflecting changes in the Fund's net assets during the year.

The *Notes to Financial Statements* provides additional disclosures for information reflected in the financial statements.

Other Report

Following the *Notes to Financial Statements* is the *Report on Compliance and on Internal Control Over Financial Reporting*.

Financial Analysis

As mentioned previously, the *Statements of Net Assets* provides, over time, indicators of the Fund's financial position. The *Statements of Net Assets* includes all the Fund's assets and liabilities, and provides information about the nature and the amounts of investment in resources (assets) and the obligations (liabilities) of the Fund.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

As of June 30, 2003 and 2002, the Fund's net assets were as follows:

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets	\$ 2,820,124	\$ 3,100,346
Capital assets	<u>2,493,562</u>	<u>2,176,039</u>
 TOTAL ASSETS	 <u>\$ 5,313,686</u>	 <u>\$ 5,276,385</u>
LIABILITIES		
Current liabilities	\$ 195,211	\$ 62,334
Long-term liabilities	<u>61,826</u>	<u>88,753</u>
 TOTAL LIABILITIES	 <u>257,037</u>	 <u>151,087</u>
NET ASSETS		
Invested in capital assets, net of debt	2,493,562	2,176,039
Unreserved	<u>2,563,087</u>	<u>2,949,259</u>
 TOTAL NET ASSETS	 <u>5,056,649</u>	 <u>5,125,298</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,313,686</u>	 <u>\$ 5,276,385</u>

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

Net assets of the Fund decreased by 1.3% in 2003 over 2002. Investment in capital assets (e.g., vehicles, shop equipment and furniture), less the related debt used to purchase the assets represents a large portion of the Fund's net assets; \$2,493,562 or 49.3% in 2003 and \$2,176,039 or 42.5% in 2002. Capital assets are used to provide vehicles for state agencies. The Fund's investment in its capital assets is reported net of debt. The resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the vehicles, cannot be used to liquidate the debt. The remaining unreserved assets may be used to finance day to day operations without any constraints established by debt, or other legal requirements.

The changes in net assets reflects the Fund's current year's revenues and expenses on an accrual basis of accounting. The changes in net assets for the years ended June 30, 2003 and 2002, are follows:

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Motor vehicle rentals	\$ 1,807,709	\$ 1,684,300
Motor vehicle repairs	<u>198,297</u>	<u>214,955</u>
TOTAL OPERATING REVENUES	<u>2,006,006</u>	<u>1,899,255</u>
OPERATING EXPENSES		
General operating and administrative expenses	1,064,767	987,804
Depreciation	<u>516,930</u>	<u>516,299</u>
TOTAL OPERATING EXPENSES	<u>1,581,697</u>	<u>1,504,103</u>
INCOME FROM OPERATIONS	424,309	395,152
NON-OPERATING REVENUES	122,970	103,581
OPERATING TRANSFERS, net	<u>(615,928)</u>	<u>14,881</u>
CHANGE IN NET ASSETS	<u>\$ (68,649)</u>	<u>\$ 513,614</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

The Fund=s vehicle rental rates are established under the jurisdiction of the Comptroller, or the Comptroller=s designated representative i.e., the division head of the automotive management division.

The increase in operating and expenses, exclusive of depreciation expense, from \$987,804 in 2002 to \$ 1,064,767 in 2003, an increase of \$76,963 or 7.8%, was principally a result of an increase in personnel services, fuel purchases and the allocation of insurance risk management cost.

Capital Assets and Debt Administration

Capital Assets

The Fund=s investment in capital assets amounted to \$ 2,493,563 and \$ 2,176,039 (net of accumulated depreciation of \$2,094,891 and \$2,086,592 as of June 30, 2003 and 2002, respectively). Capital assets includes vehicle, shop equipments and furniture. The Fund=s capital assets, net of accumulated depreciation consists of the following:

	<u>2003</u>	<u>2002</u>
Vehicles	2,485,313	2,167,789
Shop equipment and furniture	<u>8,250</u>	<u>8,250</u>
Total capital assets, net of accumulated depreciation	<u>\$ 2,493,563</u>	<u>\$ 2,176,039</u>

See Notes (1) and (2) of the Fund=s financial statements for additional information regarding the Fund=s capital assets.

REPORT ON THE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Comptroller
State of Hawaii
Department of Accounting and General Services

We have audited the accompanying statements of net assets of the

STATE MOTOR POOL REVOLVING FUND (Fund),

as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the State of Hawaii, Department of Accounting and General Services. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements present only the accounts of the Fund and are not intended to present the financial position and results of operations of the State of Hawaii, or any other segment thereof in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 15, 2003, on our consideration of the Fund=s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 15, 2003
Honolulu, Hawaii

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

STATEMENTS OF NET ASSETS

June 30, 2003 and 2002

ASSETS

	<u>2003</u>	<u>2002</u>
CURRENT ASSETS		
Cash in State Treasury (Note 1)	\$ 2,539,017	\$ 2,909,503
Motor vehicle rental receivable, net	267,753	176,423
Due from other funds	73	8,115
Inventories (Note 1)	<u>13,281</u>	<u>6,305</u>
TOTAL CURRENT ASSETS	<u>2,820,124</u>	<u>3,100,346</u>
NONCURRENT ASSETS		
Capital assets, at cost, less accumulated depreciation (Notes 1 and 2)	<u>2,493,562</u>	<u>2,176,039</u>
TOTAL ASSETS	<u>\$ 5,313,686</u>	<u>\$ 5,276,385</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 148,808	\$ 18,031
Accrued wages payable	23,179	18,852
Accrued vacation payable (Note 1)	23,224	11,153
Due to State Parking Revolving Fund	<u>-</u>	<u>14,298</u>
TOTAL CURRENT LIABILITIES	<u>195,211</u>	<u>62,334</u>
NONCURRENT LIABILITIES		
Accrued workers= compensation payable (Note 3)	8,700	8,700
Accrued vacation payable	<u>53,126</u>	<u>80,053</u>
TOTAL NONCURRENT LIABILITIES	<u>61,826</u>	<u>88,753</u>
TOTAL LIABILITIES	<u>257,037</u>	<u>151,087</u>
NET ASSETS		
Invested in capital assets	2,493,562	2,176,039
Unreserved	<u>2,563,087</u>	<u>2,949,259</u>
TOTAL NET ASSETS	<u>5,056,649</u>	<u>5,125,298</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,313,686</u>	<u>\$ 5,276,385</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Motor vehicle rentals	\$ 1,807,709	\$ 1,684,300
Motor vehicle repairs	<u>198,297</u>	<u>214,955</u>
TOTAL OPERATING REVENUES	<u>2,006,006</u>	<u>1,899,255</u>
OPERATING EXPENSES		
Personnel services	506,245	459,510
Depreciation	516,930	516,299
Gas and oil	249,862	237,505
Repairs and maintenance	128,554	134,600
Special assessment (Note 9)	39,670	55,336
Others	<u>140,436</u>	<u>100,853</u>
TOTAL OPERATING EXPENSES	<u>1,581,697</u>	<u>1,504,103</u>
INCOME FROM OPERATIONS	<u>424,309</u>	<u>395,152</u>
NONOPERATING REVENUES (EXPENSES)		
Interest and miscellaneous income	89,013	109,136
Gain (Loss) on disposition of capital assets	<u>33,957</u>	<u>(5,555)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>122,970</u>	<u>103,581</u>
INCOME BEFORE TRANSFERS	547,279	498,733
OPERATING TRANSFERS, NET		
Equipment and vehicles	(15,928)	14,881
General Fund	<u>(600,000)</u>	<u>-</u>
CHANGE IN NET ASSETS	(68,649)	513,614
TOTAL NET ASSETS, beginning of year	<u>5,125,298</u>	<u>4,611,684</u>
TOTAL NET ASSETS, end of year	<u>\$ 5,056,649</u>	<u>\$ 5,125,298</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from motor vehicle rentals	\$ 1,716,379	\$ 1,725,802
Receipts from motor vehicle repairs	198,297	214,955
Other receipts	-	50
Payments for personnel services	(516,773)	(449,221)
Payments for gas and oil	(249,862)	(237,505)
Payments for repairs and maintenance	(128,554)	(134,600)
Payments for special assessment	(31,628)	(63,451)
Others payments	<u>(30,933)</u>	<u>(124,892)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>956,926</u>	<u>931,138</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest from pooled funds	<u>89,013</u>	<u>109,087</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>89,013</u>	<u>109,087</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(894,210)	(976,902)
Proceeds from disposal of equipment	<u>77,785</u>	<u>81,949</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(816,425)</u>	<u>(894,953)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating Transfer Out to General Fund	<u>(600,000)</u>	<u>-</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<u>(600,000)</u>	<u>-</u>
 NET (DECREASE) INCREASE IN CASH	 (370,486)	 145,272
CASH, beginning of year	<u>2,909,503</u>	<u>2,764,231</u>
CASH, end of year	<u>\$ 2,539,017</u>	<u>\$ 2,909,503</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 424,309	\$ 395,152
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	516,930	516,299
Miscellaneous income	-	50
(Increase) decrease in assets:		
Motor vehicle rental receivable	(91,330)	41,502
Due from other funds	8,042	(8,115)
Inventories	(6,976)	4,958
Increase (decrease) in liabilities:		
Accounts payable	130,777	(33,582)
Accrued wages payable	4,327	(2,236)
Accrued vacation payable	(14,855)	12,525
Due to State Parking Revolving Fund	<u>(14,298)</u>	<u>4,585</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 956,926</u>	<u>\$ 931,138</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units.

Background - The State Motor Pool Revolving Fund (Fund) was established pursuant to Act 77, Session Laws of Hawaii 1963 (Section 26-6 of the Hawaii Revised Statutes). The Fund is responsible for providing safe and economical transportation for the personnel of state departments and agencies requiring the use of passenger vehicles in connection with official state business. All monies collected from motor vehicle rentals are used for the acquisition, operation, repair, maintenance, storage, and disposition of all state-owned vehicles assigned to the State Motor Pool.

Basis of Accounting - The Fund is an internal service fund (proprietary fund type) as defined by the Governmental Accounting Standards Board (GASB), which uses the flow of economic resources measurement focus and accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Fund accounts for the rental and maintenance of motor vehicles provided to other state departments or agencies on a cost reimbursement basis.

Use of Estimates - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury (cash pool). The Hawaii Revised Statutes (HRS) authorizes the Director of Finance to invest in

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies (continued)

obligations of or guaranteed by the U. S. Government, obligations of the State of Hawaii (State), federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Director of Finance pools and invests any monies of the Fund, which in the Director=s judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies.

For purposes of the financial statements, the Fund considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories - Inventories, principally supplies, are stated at the lower of cost or market with cost being determined by the first-in, first-out method (FIFO).

Capital Assets - Capital assets are defined by the Fund as vehicles, furniture, office and shop equipment with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Furniture and shop equipment	\$ 5,000
Vehicles	5,000

Capital assets are stated at cost. Donated assets are recorded at their fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the Fund. The cost of normal maintenance and repairs that do not add to the value or materially extend useful lives are charged to operations as

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies (continued)

incurred. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

Depreciation - Depreciation is computed under the straight-line method over estimated useful lives as follows:

	<u>Useful Lives</u>
Motor vehicles	10 years
Shop and office equipment	5 - 7 years

Vacation Pay - The Fund's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, the employees are paid their vacation allowance in a lump sum. The Fund records all vacation pay at current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Description of Leasing Arrangements - The Fund leases various types of commercial automobiles and trucks on short-term leasing arrangements to other state departments and agencies. Revenue and expenses related to leased equipment are accounted for by the operating method. Under the operating method, aggregate rentals are reported as revenue over the life of the lease and the related expenses are charged to leasing operations when incurred. Leases expire at varying dates within one year.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
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NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements - The GASB issued Statement No. 34, *Basic Financial Statements - and Management=s Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management=s Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These pronouncements established new financial reporting requirements and a new financial reporting model for state and local governments. The Fund adopted these pronouncements, effective July 1, 2001.

(2) Capital Assets

Capital assets activity for the year ended June 30, 2003 was as follows:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
Vehicles	\$ 4,200,973	\$ 927,210	\$ 601,388	\$ 4,526,795
Shop equipment and furniture	<u>61,658</u>	<u>-</u>	<u>-</u>	<u>61,658</u>
Total capital assets	<u>4,262,631</u>	<u>927,210</u>	<u>601,388</u>	<u>4,588,453</u>
Less accumulated depreciation for:				
Vehicles	(2,033,184)	(516,930)	(508,631)	(2,041,483)
Shop equipment and furniture	<u>(53,408)</u>	<u>-</u>	<u>-</u>	<u>(53,408)</u>
Total accumulated depreciation	<u>(2,086,592)</u>	<u>(516,930)</u>	<u>(508,631)</u>	<u>(2,094,891)</u>
Total capital assets, net	<u>\$ 2,176,039</u>	<u>\$ 410,280</u>	<u>\$ (92,757)</u>	<u>\$ 2,493,562</u>

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(3) Workers= Compensation Reserve

The Fund is fully self-insured for workers= compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the years ended June 30, 2003 and 2002, there were no payments for workers= compensation claims and disability expenses.

The Fund has recorded a reserve of \$8,700 for the expected cost of open reported claims, based on historical cost information for closed and open claims, as of June 30, 2003 and 2002.

(4) Automobile Insurance

The State self insures its automobile no-fault coverage and purchases excess liability insurance for its entire automotive fleet. Coverage for collision, fire, theft or comprehensive loss is at the discretion of the state departments and agencies to which vehicles are assigned. Uncovered losses are the responsibility of the state departments and agencies to which vehicles are assigned. The Fund transferred approximately \$63,103 and \$40,125 in 2003 and 2002, respectively, to the State Risk Management Revolving Fund which is its pro rata share of the total annual cost based on self-insured claim losses and administrative fees incurred over the number of the Fund's vehicles included in the State's automotive fleet. The automobile liability insurance program is administered by the risk management staff of the Department of Accounting and General Services (DAGS).

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(5) Retirement Benefits

All eligible employees of the Fund are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS issues a comprehensive annual financial report available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment. Most covered

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(5) Retirement Benefits (continued)

employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirement as of June 30, 2003 and 2002, based on the most recent information available, was approximately \$158,622,334 and \$113,984,000, respectively. The State contributed 100% of its required contributions for 2003 and 2002.

Changes in salary growth assumptions and investment earnings pursuant to Act 100, Session Laws of Hawaii 1999, decreased the June 30, 2003 and 2002 required contributions. The Fund's covered payroll was approximately \$413,000 and \$457,000 in 2003 and 2002, respectively. The retirement plan contribution charged to the Fund's operation was \$32,223 in 2003. There was no retirement plan contribution charged to the Fund's operations in 2002.

(6) Post-Retirement Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

STATE OF HAWAII
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NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(6) Post-Retirement Benefits (continued)

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees= monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees= monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

Contributions are financed on a pay-as-you-go basis. The Fund=s share of the expense for post-retirement benefits for the years ended June 30, 2003 and 2002 was \$28,847 and \$21,590, respectively.

(7) Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of the State=s general creditors. The State has no responsibility for investment losses but does have the duty of due care that would be required of an ordinary prudent investor.

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NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(8) Contingencies

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The Fund's accumulated sick leave pay is based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2003 and 2002, sick leave accumulations were approximately \$169,930 and \$437,610, respectively.

(9) Central Service and Departmental Administrative Expenses

HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund=s receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by DAGS, based on the ratio of the general administrative service expenses to DAGS=s net departmental expenses. There were no HRS Section 36-27 assessment in 2003 and 2002. The total of the assessment under HRS Section 36-30 was \$39,670 and \$55,336 in 2003 and 2002, respectively.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Comptroller
State of Hawaii
Department of Accounting and General Services

We have audited the financial statements of the

**STATE OF HAWAII, DEPARTMENT OF ACCOUNTING AND
GENERAL SERVICES, STATE MOTOR POOL REVOLVING FUND (Fund),**

as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund=s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund=s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted no matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund=s ability to record, process, summarize and report financial data which are consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information and use of the management of the Fund, the Department of Accounting and General Services, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

December 15, 2003
Honolulu, Hawaii